The Weekly Market View

June 28 2020

ADCB ASSET MANAGEMENT LIMITED

Slightly perplexed

Faced by increasing COVID-19 infections but better than expected economic data, financial markets remained volatile in the week ended 26 June. With COVID-19 infections rising sharply in the US, markets started to worry about the possibility of another round of restrictive measures being imposed. US hit its highest single day of new coronavirus cases this week. At the same time, cyclical economic data continued to be better than expected. PMIs and other survey-based data surprised to the upside in both the US and Europe. In the US, both May durable goods orders and May new home sales were higher than expected. However, some of this optimism was dampened by IMF cutting its global economic forecasts further in its World Economic Outlook Update.

Equity markets ended the week in the negative territory amidst this volatility. Equity markets in the US, where infections rose sharply, underperformed those in the rest of the world. Within US, cyclical segments underperformed. Emerging markets, helped by strength in Taiwan, China and India, outperformed developed markets. On the fixed income side, concerns about rising coronavirus infections pushed the US 10Y treasury yields to their lowest point since mid-May. Corporate bond spreads widened too. Amongst commodities, oil prices fell on concerns that rising infection rate could further reduce demand. Gold prices strengthened on a risk-off bid. In the FX market, positive economic data in the Eurozone meant strong EUR against the USD. However, USD managed to gain against both the GBP and the JPY.

Cautious near-term

Equity markets are likely to experience some pressure in the near-term. Especially in the next two months, volatility is likely to rise and stay elevated. There are a range of events over the next few months that are likely to keep equity markets on the edge. To start with, increasing numbers of COVID-19 infections are taking the centre stage. Q2 earnings season (beginning mid-July) is likely to bring to the forefront, discussions around the impact of COVID-19 economic disruption on corporate earnings. We think there is likely to be more focus on management discussion and analysis regarding the 'scars' this pandemic is likely to leave on various sectors. Further, with the CARES Act expiring by end-July and with the HEROES Act still not finalised, any vacuum in policy support in the US is likely to be taken negatively by equity investors. Furthermore, chances of cyclical data disappointments are now rising. Over the last two months, given extremely depressed expectations, it has been easy for economic data to surprise on the upside. However, now with market expectations for a sharp cyclical recovery rising, there is an increasing chance for cyclical data to disappoint looking ahead. This in turn is likely to impact quite negatively some cyclical market segments that have performed well. Many of these have been behind the broader market rally since mid-May. Also, the retail investor participation that we had seen over the last six weeks or so is unlikely to last longer especially if concerns around viral infections rise. This takes out a more recent support for equity markets but again, cyclical themes are likely to be more negatively impacted. Add to these a long list of political risks facing financial markets – the risk of a hard Brexit, EU ban on US travellers, increasing geo-political tensions, risks associated with US Presidential elections later this year etc., and the case for a more prudent outlook in the near-term becomes clear.

During turbulent times, cyclical sectors/markets are likely to be disproportionately negatively impacted. Some of our preferred themes – of non-cyclical growth relating to the 'new economy' are likely to outperform in such a scenario. Any correction (in absolute terms) in long-term growth sectors is likely to be used by market participants to increase their allocation. All in all, whilst we remain constructive on the equity market outlook on a 12 month basis, we see reasons why the asset class can experience turbulence in the near-term resulting in deteriorating risk-adjusted returns. Within equities, we reiterate our preference for non-cyclical growth themes and quality (for our recommended equity positioning see The Equity Strategist: Thematic thinking and portfolio tweaking, April 14 2020).

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Global markets' performance snapshot

Index Snapshot (World Indices)			
Index	Latest	Weekly %	YTD %
S&P 500	3,009	-2.9	-6.9
Dow Jones	25,016	-3.3	-12.3
Nasdaq	9,757	-1.9	8.7
DAX	12,089	-2.0	-8.8
Nikkei 225	22,512	0.1	-4.8
FTSE 100	6,159	-2.1	-18.3
Sensex	35,171	1.3	-14.7
Hang Seng	24,550	-0.4	-12.9
Regional Markets (Sunday to Thursday)			
ADX	4,286	-1.4	-15.6
DFM	2,087	0.4	-24.5
Tadawul	7,232	-1.7	-13.8
DSM	9,185	-1.5	-11.9
MSM30	3,526	0.3	-11.4
BHSE	1,279	0.4	-20.5
KWSE	5,168	2.9	-17.7
MSCI			
MSCI World	2,193	-2.3	-8.5
MSCI EM	1,004	-0.2	-10.4

Global Commodities, Currencies and Rates			
Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	41.0	-2.8	-37.8
WTI USD/bbl	38.5	-3.2	-37.0
Gold USD/t oz	1,771.3	1.6	16.7
Silver USD/t oz	17.8	1.0	-0.3
Platinum USD/t oz	805.8	-1.1	-16.6
Copper USD/MT	5,985.5	2.6	-2.8
Alluminium	1,577.3	0.5	-11.8
Currencies			
EUR USD	1.12	0.4	0.1
GBP USD	1.23	-0.1	-6.9
USD JPY	107.22	0.3	1.3
CHF USD	0.95	-0.5	2.0
Rates			
USD Libor 3m	0.30	0.3	-84.0
USD Libor 12m	0.57	-0.9	-71.4
UAE Eibor 3m	0.76	17.9	-65.6
UAE Eibor 12m	1.14	11.1	-50.1
US 3m Bills	0.14	-6.9	-91.1
US 10yr Treasury	0.64	-7.6	-66.6

Summary market outlook

Global Yields	Concerns about rising coronavirus infections pushed the US 10Y treasury yields to their lowest point since mid-May. Corporate bond spreads widened too. We recommend increasing duration on US treasuries with long-term rates likely to remain pressed low on Fed's QE and low growth and inflation environment.
Stress and Risk Indicators	VIX was volatile as markets faced increasing COVID-19 infections but better than expected economic data. Despite falling in recent weeks, VIX still remains high compared with levels observed in recent years. As such, we believe that volatility will likely stay elevated given the range of risks on the horizon. This entire episode of the coronavirus would be a part of our 'high volatility' narrative for 2020 and our risk-barbell positioning.
Equity Markets	
Local Equity Markets	GCC markets remained weak overall. Oil and gas producers came under pressure on weakening demand outlook. Dubai stock market ended the week positive on reopening optimism. Kuwait stock market outperformed as MSCI confirmed that it is proceeding with upgrading Kuwait from frontier markets to emerging markets status in November. We remain neutral on GCC equities given the potential for further dollar strength, stable to higher oil prices and potential for revival in credit growth following the interest rate cuts.
Global Equity Markets	Equity markets ended the week in the negative territory amidst volatility. Equity markets in the US, where infections rose sharply, underperformed the rest of the world. Within US, cyclical segments underperformed. Emerging markets, helped by strength in Taiwan, China and India, outperformed developed markets. Overall, we remain neutral on equities with an overweight on US and underweight EU and EM outside Asia. By sector we prefer IT and Communication services. Our preference is for large cap non-cyclical growth with focus of quality.
Commodities	
Precious Metals	Gold prices strengthened further on a risk-off bid. We remain overweight gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices fell on concerns that rising infection rates could further reduce demand. Overall, we believe that oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Rise in industrial metal prices over the past week was consistent with stability in Chinese equity market. Yet, we do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	Positive economic data in the Eurozone meant stronger EUR against the USD. We expect the euro to remain stable.
Critical levels	R2 1.1769 · R1 1.1494 · S1 1.0872 · S2 1.0525
GBPUSD	USD gained against GBP on a safe haven bid. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.
Critical levels	R2 1.3145 · R1 1.2741 · S1 1.2004 · S2 1.1671
USDJPY	The green back strengthened slightly against the JPY but remained within the range seen over the past couple of weeks. BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	R2 111.49 · R1 109.36 · S1 105.58 · S2 103.93

Note: R2, R1, S2 and S1 refer to Bloomberg calculated weekly technical resistance and support levels.

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
06/30/2020	Conf. Board Consumer Confidence	Jun	90.5	86.6	Employment data will be closely watched. FOMC meeting minutes will be widely read.
07/01/2020	ADP Employment Change	Jun	2950k	-2760k	
07/01/2020	ISM Manufacturing	Jun	49.5	43.1	
07/01/2020	FOMC Meeting Minutes	10-Jun	--	--	
07/01/2020	Wards Total Vehicle Sales	Jun	13.00m	12.21m	
07/02/2020	Unemployment Rate	Jun	12.40%	13.30%	
07/02/2020	Average Hourly Earnings YoY	Jun	5.30%	6.70%	
07/02/2020	Labor Force Participation Rate	Jun	61.20%	60.80%	

Japan

	Indicator	Period	Expected	Prior	Comments
06/29/2020	Retail Sales YoY	May	-11.60%	-13.70%	Retail sales, consumer confidence and industrial production data will be monitored.
06/30/2020	Industrial Production YoY	May P	-23.20%	-15.00%	
06/30/2020	Vehicle Production YoY	Apr	--	--	
07/01/2020	Consumer Confidence Index	Jun	28.5	24	

Eurozone

	Indicator	Period	Expected	Prior	Comments
06/29/2020	Economic Confidence	Jun	80	67.5	Confidence measures, inflation and unemployment rate will be in focus.
06/29/2020	Industrial Confidence	Jun	-19.7	-27.5	
06/29/2020	Services Confidence	Jun	-25.4	-43.6	
06/29/2020	Consumer Confidence	Jun F	--	-14.7	
06/30/2020	CPI Estimate YoY	Jun	0.20%	0.10%	
07/02/2020	PPI YoY	May	-4.70%	-4.50%	
07/02/2020	Unemployment Rate	May	7.70%	7.30%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
06/29/2020	Mortgage Approvals	May	25.0k	15.8k	Consumer confidence and housing data will be important.
06/30/2020	GfK Consumer Confidence	Jun F	-29	-30	
07/01/2020	Nationwide House PX MoM	Jun	-0.60%	-1.70%	

China and India

	Indicator	Period	Expected	Prior	Comments
06/30/2020	NBS China Composite PMI	Jun	--	53.4	PMI data releases will be closely watched in both China and India.
07/01/2020	Markit India PMI Mfg	Jun	--	30.8	
07/03/2020	Caixin China PMI Composite	Jun	--	54.5	
07/03/2020	Markit India PMI Composite	Jun	--	14.8	

Sources

All information in this report has been obtained from the following sources except where indicated otherwise:

1. Bloomberg
2. Wall Street Journal
3. RTT News
4. Reuters
5. Gulfbase
6. Zawya

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